

Document A. Speculation & Buying on Margin

Speculation: Buying stocks for short term gain in anticipation that the price will rise, with no expectation of long term investment in the company.

Disaster in the Making

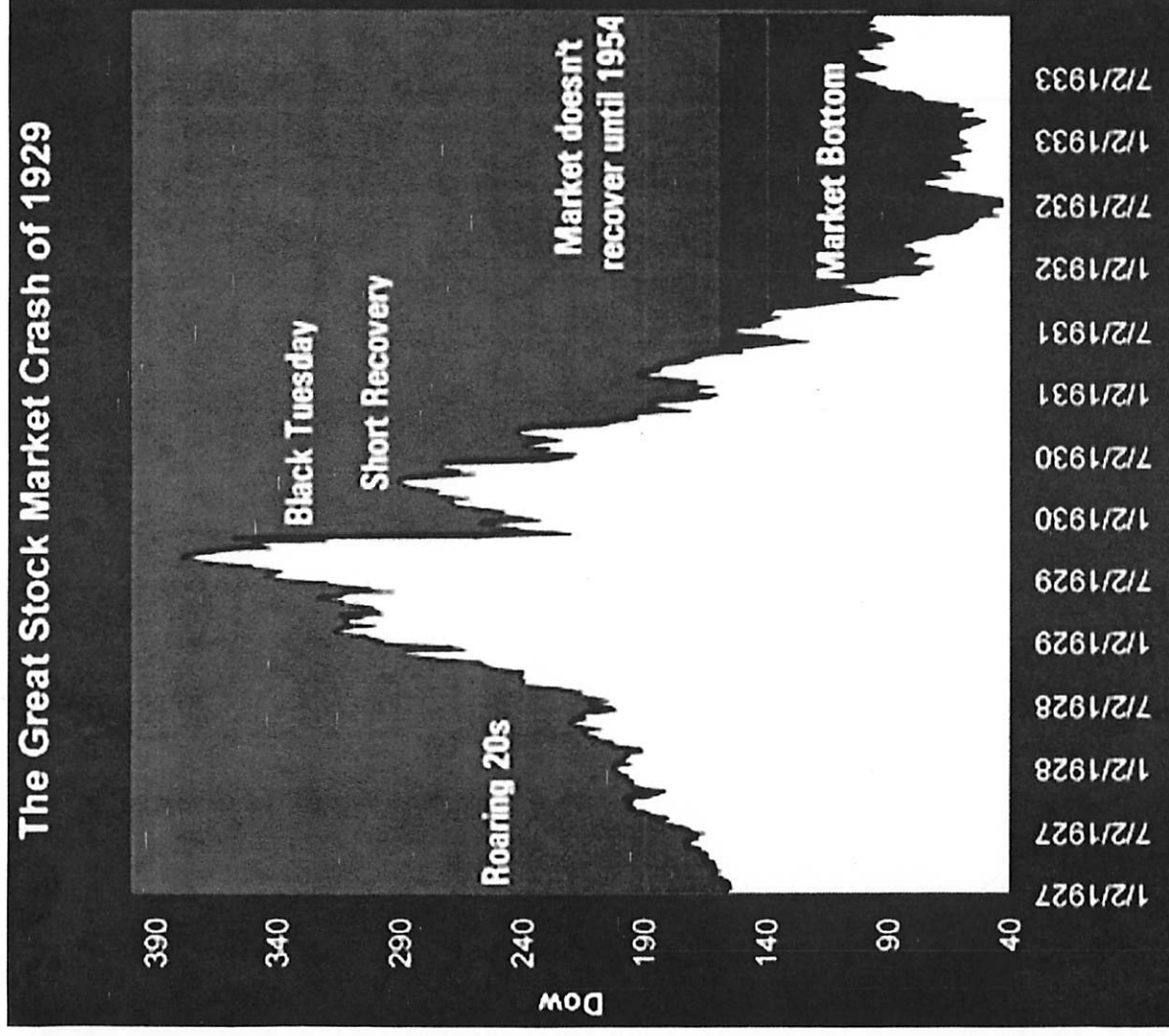
As early as 1925, then-Secretary of Commerce Hoover had warned President Coolidge that stock market speculation was getting out of hand. Yet in his final State of the Union Address, Coolidge saw no reason for alarm. "No Congress...ever assembled has met with a more pleasing prospect than that which appears at the present time"...said Coolidge early in 1929. "In the domestic field there is tranquility and contentment...and the highest record of prosperity in years."

Al Smith's campaign manager, General Motors executive John J. Raskob, agreed. In an article entitled "Everybody Ought to be Rich" Raskob declared, "Prosperity is in the nature of an endless chain and we can break it only by refusing to see what it is." President-elect Hoover disagreed. Even before his inauguration he urged the Federal Reserve to halt "crazy and dangerous" gambling on Wall Street by increasing the discount rate the Fed charged banks for speculative loans. He asked magazines and newspapers to run stories warning of the dangers of rampant speculation.

Another problem was buying on margin. In the 1920s more people invested in the stock market than ever before. Stock prices rose so fast that at the end of the decade, some people became rich overnight by buying and selling stocks. People could buy stocks on margin which was like installment buying. People could buy stocks for only a 10% down payment! The buyer would hold the stock until the price rose and then sell it for a profit. As long as the stock prices kept going up, the system worked. However, during 1928 and 1929, the prices of many stocks went up faster than the value of the companies the stocks represented. Some experts warned that the bull market would end.

From - <http://hoover.archives.gov/exhibits/Hooverstory/gallery06/gallery06.html>

Document B. Stock Market Crash

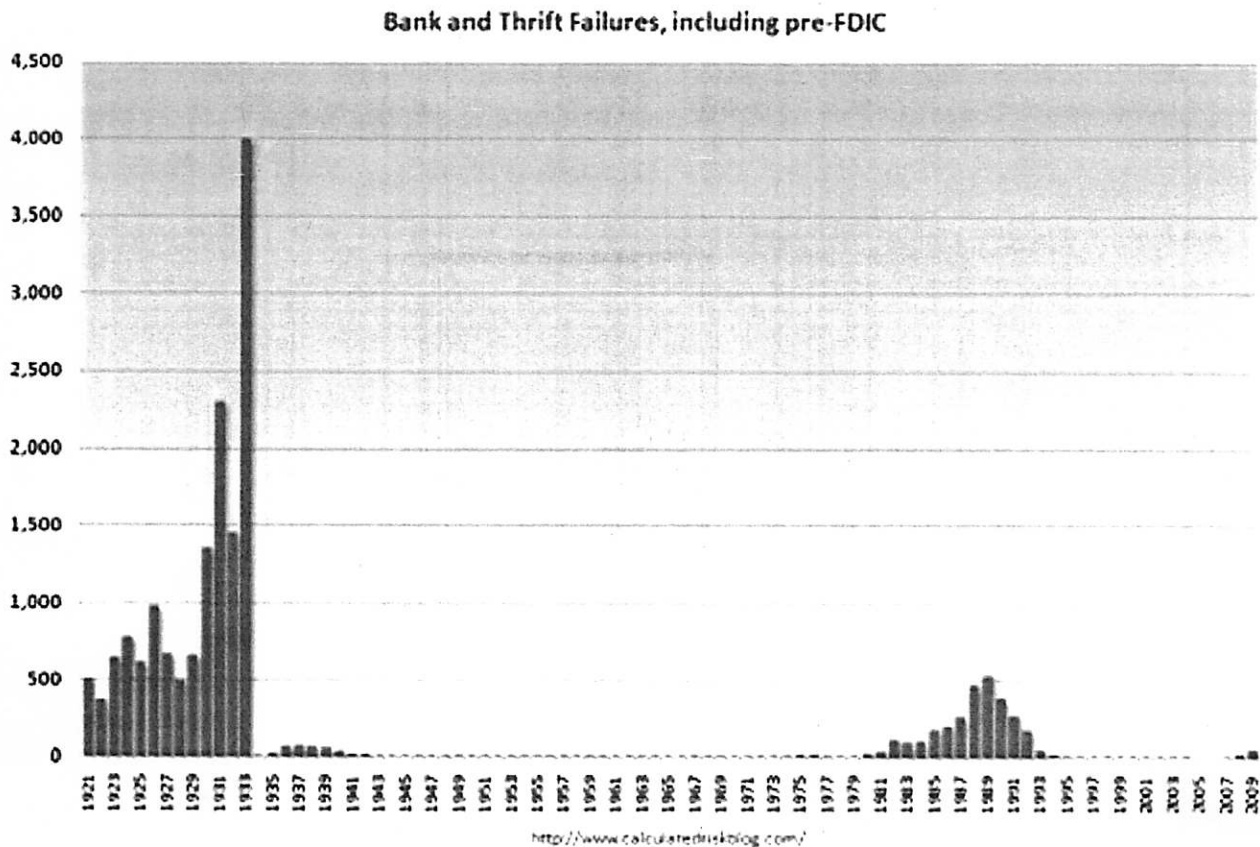


Most people associate the Great Depression with the Wall Street stock market crash of 1929, but it was only one cause among many. One scholar described the start of the crash on October 24 as “the most devastating day in the history of the New York stock market.”

Throughout the 1920s a long boom took stock prices to peaks never before seen. From 1920 to 1929, stocks more than quadrupled in value. Many investors became convinced that stocks were a sure thing and borrowed heavily to invest more money in the market. Americans remained confident that they could become rich from “playing the market.”

The collapse began on October 24, now known as “Black Thursday.” Prices plummeted when people realized that the stock market boom was over. With no one buying stocks, millionaires became bankrupt almost overnight. In just three days, stocks lost \$5 billion in value. The banking system fell into chaos as banks tried to collect on loans made to stock market investors whose holdings were now worth little or nothing. Worse, many banks had themselves invested depositors’ money in the stock market. When word spread that banks’ assets contained huge loans and almost worthless stock certificates, depositors rushed to withdraw their savings. Unable to raise fresh funds, banks began failing by the hundreds. When American loans to other countries dried up, the fragile world economy felt the full impact of the crash.

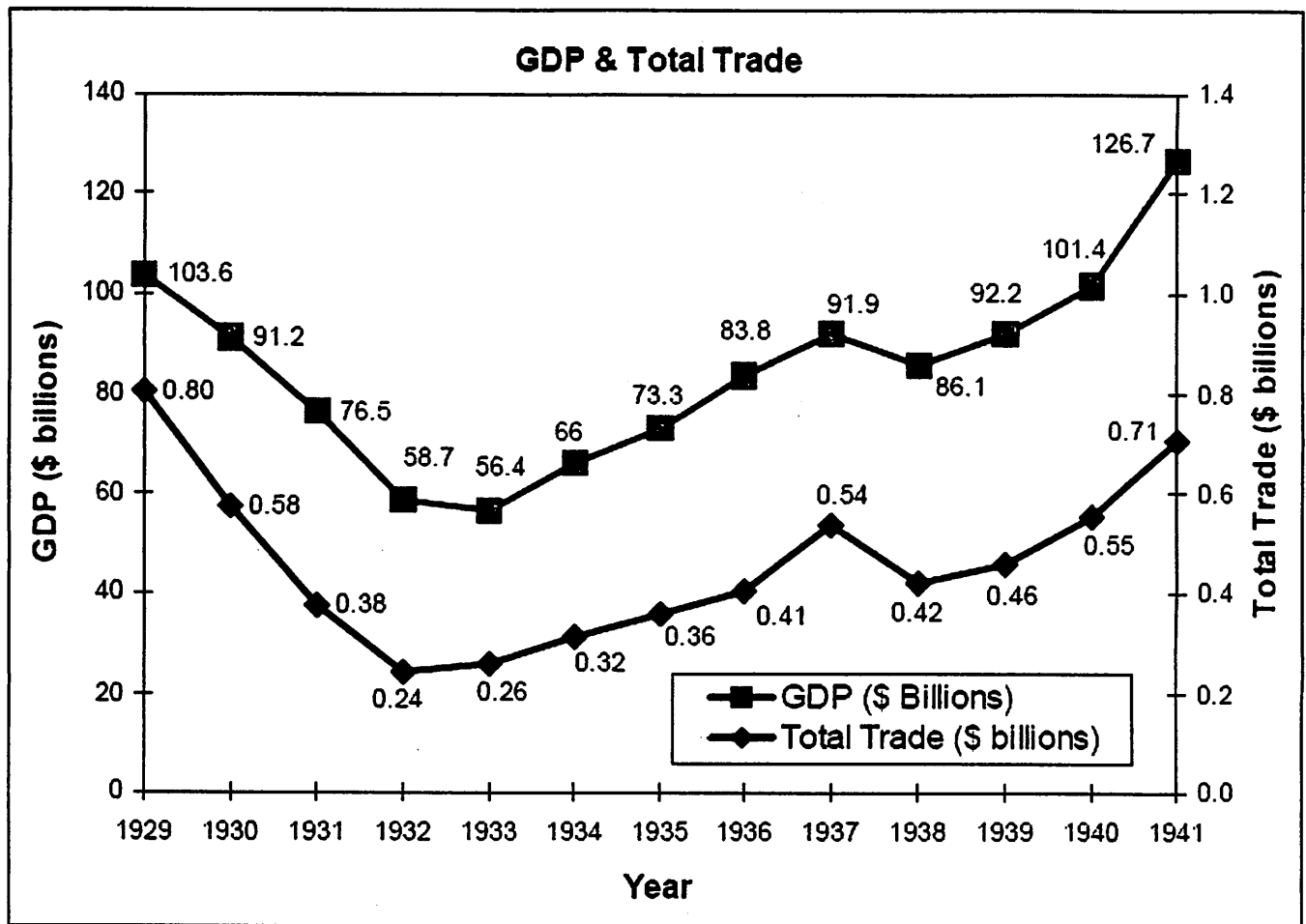
Document C. Bank Failure



When stock values collapsed, the banks lost money on their investments, and the speculators defaulted on their loans. Having suffered serious losses, many banks cut back drastically on the loans they made. With less credit available, consumers and businesses were unable to borrow as much money as they had previously. This helped to put the economy into a recession.

For some banks, the losses they suffered in the crash were more than they could absorb, and they were forced to close. At that time, the government did not insure bank deposits; therefore, if a bank collapsed, customers lost their savings. The bank failures in 1929 and early 1930 triggered a crisis of confidence in the banking system.

Document D. Tariff & Trade



Many jobs might have been saved in manufacturers had sold more goods abroad. As the bull market of the 1920's accelerated, U.S. banks made high-interest loans to stock speculators instead of lending money to foreign companies. Without these loans from U.S. banks, foreign companies purchased fewer products from American manufacturers.

Matters grew worse after June 1930, when Congress passed the Hawley-Smoot Tariff, which levied duties on thousands of imported goods to protect American-made products from foreign competition. The Tariff raised the average tariff rate to the highest level in American history. Rates went up on more than 900 manufactured items. The Hawley-Smoot Tariff aimed to protect American manufacturers from foreign competition, but it damaged American sales abroad, especially when other countries responded with similar actions. It was a lose-lose situation. United States imports from Europe declined from a 1929 high of \$1,334 million to just \$390 million in 1932, while United States exports to Europe fell from \$2,341 million in 1929 to \$784 million in 1932. Overall, world trade declined by some 66 percent between 1929 and 1934.

Document E. Overproduction in Agriculture

Overproduction in Agriculture

Between 1925 and 1929, nearly every export crop in the world fell in price. Millions of farmers suffered losses as cash commodities like coffee fell from 24 cents to 10 cents a pound or rice depreciated 30-50 percent in value. The problem was simple. There was too much agricultural production in the 1920s—supply far outweighed demand. Declining populations and more efficient farm machinery were mainly responsible for the glut. But people seemed to make a determined effort to ignore the problem. Rather than curtail production, farmers further expanded their operations. Cotton production increased by 30 per cent; rubber production increased by more than 80 per cent. The farming of wheat, beets, sugar cane, tea, and cocoa was also amplified. Meanwhile governments placed tariffs on imported foodstuffs to protect their own farmers. Germany, for example, more than tripled its wheat tariff between 1925 and 1930. The sharp reduction in exports devastated agriculture worldwide. Heavily in debt for land and machinery, farmers around the globe were in trouble well before the Great Depression started. The agricultural industry was still the backbone of the economies of many countries, including the United States. In numerous countries, however, profound structural weaknesses plagued economic life in the 1920s.

Document F. Inequitable Income Distribution

The 1920s in the United States are often linked in our historical memories to prosperity and good times. But 40 per cent of the country shared just 12 per cent of the national income by the end of the decade. In contrast, the well-to-do who made up 5 per cent of the population enjoyed 30 per cent of the national income. The economy did grow at a spectacular rate, with American industry churning out cars, refrigerators, and radios. But wages did not keep pace with productivity in the 1920s and many Americans were too poor to buy the glut of consumer goods.

The introduction of installment plans or buying on credit helped. Most cars and radios were bought with a “buy now and pay later” plan. Still, there was too much money in too few hands. And installment debt decreased the incomes of the less privileged even further. The rich were only able to buy so many goods for themselves; their consumption was not enough to offset the overproduction of goods. Finally, in the summer of 1929 (just before the stock market crash), business people realized that supply far exceeded demand, and they made severe cutbacks in many industries. Unemployment rose so less money existed to buy goods. This resulted in more layoffs, and so on.

Ultimately the United States government passed the Hawley-Smoot Tariff Act, which slapped heavy taxes on thousands of imported goods from other countries in order to help American industries recover. It dealt a crushing blow to international trade and greatly contributed to the spread of the Great Depression around the world. In short, what began as an uneven distribution of wealth in one country, ended in a global crisis.

Distribution of Wealth

Rise in per capita income for top 1% of population, 1920-1929: 75%

Rise in per capita income for nation as a whole: 9%

Percentage of American Families with no savings: 80%

Percentage of savings held by top .1% of Americans: 34%

Percentage of savings held by top 2.3% of Americans: 67%